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AUSTIN ECONOMY FORGES AHEAD AS RECESSION FEARS LOOM NATIONALLY

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If you're looking for evidence that the U.S. economic slowdown is having an impact locally, you won't find it at **Bobby Jenkins'** company, ABC Home & Commercial Services.

ABC's revenue in July climbed nearly 17% compared with the same month a year ago, and **Jenkins** said he's trying to fill about three dozen open positions to keep up with demand.

But that doesn't mean he's not monitoring the weakening national outlook.

"I'm definitely worried about it," said **Jenkins**, owner of Austin-based ABC. "But while I am concerned about the big picture, I can tell you currently in Austin, business is very good and demand is still high."

It's a common refrain in the Austin business community. Local economic indicators remain strong for the most part, despite wariness about the possibility that a broad nationwide downturn could put a damper on activity in the metro area.

National economy struggling

By one widespread definition of a recession — two consecutive quarters of negative growth — the United States is already in one after the gross domestic product slipped in both the first and second quarters this year. Still, Federal Reserve Chairman Jerome Powell has said he doesn't think a recession has begun because of other economic data that's more positive, and the National Bureau of Economic Research, the organization that officially makes the call, has yet to weigh in.

There's little doubt the national economy is struggling, however.

High inflation has increased costs for food and fuel, and the Fed's effort to tame it by raising interest rates has made it more expensive to borrow money and cooled housing markets. Meanwhile, the stock market has fallen substantially this year, and a number of big-name companies nationally have begun laying off workers, including retail giant Walmart, automaker Ford Motor Co. and software company Oracle, which is based in Austin.

Luis Torres, a senior business economist with the Federal

Reserve Bank of Dallas, said he won't be surprised if economic activity in the Austin area decelerates as the U.S. economy loses steam overall. Given how strong the local economy has been, however, he said he expects it to be a far cry from an actual downturn.

The goal of the interest rate increases by the Central Bank "is to slow the economy (and thus bring down inflation) without sending it into a recession," said Torres, who is based in San Antonio.

If it's successful, "Austin would still be strong, just growing at a slower rate," Torres said. "Austin will definitely continue to do well" and probably outperform the national economy, buoyed by a flood of companies that have been relocating or expanding in the area.

Just within the past few days, aerospace and defense technology company BAE Systems said it's moving portions of a major division here. The announcement is the latest in what has been a string of economic development wins for the Austin area before and during the coronavirus pandemic, including big projects by electric automaker Tesla and technology giants Samsung and Apple.

Austin bucking the trend

So far at least, the upshot is that business activity in Austin has shown few signs of cooling, even though the hot local housing market — which has been notching sales records for months — is retrenching somewhat and cracks have begun to emerge in the Texas economy overall.

A key barometer of the Austin area devised by the Dallas Fed, called the Austin business-cycle index, actually signaled acceleration in June, the most recent figure available, after slowing a bit in May.

In addition, the unemployment rate in the Austin metro area came in at a seasonally adjusted 2.9% in June — tying its pandemic-era low. Employment in the area grew at an annualized pace of 11%, a big increase from 1.9% in May, and average hourly wages were up 7.6% compared with June 2021, outpacing year-over-year gains of 5.1% nationally and 4.5% statewide, according to the Dallas Fed.

Ellen Wood, CEO of Austin-based vcfo, said she is "definitely paying attention" to the trends in the national economy but isn't seeing a slowdown in her own business or those of her clients. **Wood's** company, which has about 200 clients, provides finance and human resources services to mainly small- and medium-sized firms.

"We have been ahead of plan all year," she said. "We are only limited by the talent that we can onboard onto our

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team” because of what has been a tight labor market.

Still, **Wood** said some early stage startups have been having more difficulty obtaining funding lately or are having to adhere to tighter expense controls imposed by their venture backers, and she also said she’s aware of acquisition talks that have been put on hold. Overall, however, “we are not seeing a significant impact or overwhelming concern (among vcfo’s clients) about the impact on Austin of the national discussion around a recession,” she said.

Even if that changes and the national troubles begin to reverberate more in the Austin area, **Wood** said the local economy “could slow down from red-hot and still be in a really good spot.”

Jason Schenker, president of Prestige Economics in Austin, said he isn’t certain it would stop there, however,

‘Things could get challenging’

While the region’s economy is insulated somewhat by the substantial presence here of state government and the University of Texas, **Schenker** said, the local housing market could fall farther than elsewhere because it has been so strong — depending on how much the Federal Reserve raises interest rates — and the big local technology sector could be vulnerable if a tech downturn accelerates nationally.

Housing prices in the Austin area have been hitting records and remain high, but a new report from Realtor.com recently ranked the region the No. 2 metro area in the nation in terms of percentage of price cuts for homes on the market.

In addition, housing inventories in the Austin metro area now exceed a two-month supply for the first time since November 2019, according to the Austin Board of Realtors. That’s still an extremely tight level of inventory and indicates it remains very much a seller’s market, but it signals a slowdown for Austin nonetheless.

“Austin is exposed to housing (and) Austin is exposed to tech — and those are two areas under pressure right now,” **Schenker** said.

He also noted that recent reports on the Texas economy overall have been worrisome. According to the Dallas Fed, statewide job growth in June and July was solid but the economy expanded at a slower pace than earlier in the year, led by weakening demand in manufacturing.

“I think with so many projects in the works (in Austin) and so many companies and people moving here, that puts us in an advantaged position” relative to many other metro areas across the state and nation, **Schenker** said. “If the Fed is close to done raising interest rates, then Austin would probably barely miss a beat.”

But “if interest rates keep rising, things could get challenging,” he said.

Jenkins, whose company provides a wide range of services to homeowners and businesses including pest control, air conditioner repair, and lawn and pool care, said he’s watching how those dynamics play out. In the interim, however, he said business is booming.

“We are having a great year,” **Jenkins** said. “To grow at the rate that we are growing at the size that we are growing, I would say it has never been better.”